UNITED STATES SUGAR CORPORATION

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September 26, 2005

The Honorable Mike Johanns
Secretary of Agriculture
Farm Bill
400 Independence Avenue, SW
Washington, DC 20250-3355

Dear Mr. Secretary:

We really appreciate you scheduling a USDA Farm Bill listening session in Orlando this month. Unfortunately, due to a previous commitment, I was unable to personally attend the session; so, I have attached our statement for your records.

It sure seems that Florida and our neighboring Gulf States have had to endure many challenges in the last few years. The USDA has been extremely helpful in assisting agricultural recovery.

I am sure that we will have other opportunities to discuss the up coming Farm Bill and I look forward to working with you and your staff on U. S. sugar policy.

With kind personal regards, I am

Sincerely,

Robert E. Coker

REC/pa

enclosure

Statement of
Mr. Robert Coker, Senior Vice President, Public Affairs
On behalf of the
U.S. Sugar Corporation
And the
Florida Sugar Cane League

USDA Farm Bill Listening Session
September 27, 2005
Orlando, Florida

"U.S. Sugar Policy in the Next Farm Bill"

Good afternoon, Mr. Secretary, I am Robert Coker, Senior Vice President for Public Affairs for the United States Sugar Corporation and a board member of the Florida Sugar Cane League. The Florida Sugar Cane League was founded in 1964 and represents Florida farmers, processors and employees of sugarcane farms in Florida.

With its headquarters in Clewiston, Florida, U.S. Sugar farms on 196,000 acres in Hendry, Glades and Palm Beach counties in South Central Florida. Sugar cane, the Company's principal business, is the second leading contributor to Florida's agricultural economy.

Protection of Florida's unique environment and good stewardship of the lands that we farm are top priorities for U.S. Sugar. The land, after all, is the principal asset of an agricultural company. Everything done on it must be compatible with its continued productivity. Sugar cane, for example, because it requires few chemicals and only small amounts of fertilizers for successful cultivation, is an ideal crop of the Company's South Florida farms. Agricultural experts consider it one of the most environmentally friendly farm crops in the world.

Sugar policy in this country is working for the U.S. consumer and taxpayer, and gives American sugar farmers a chance to survive. Prior to Hurricane Katrina, Congress was gearing up for a budget reconciliation bill, requiring major cuts in all federal government programs, including agriculture programs. Due to this devastating storm, the Federal government has responded by providing more than $60 billion in disaster aid to date with more to come as the difficult process of reconstruction continues in Mississippi, Alabama and Louisiana. Such spending puts more stress on a budget that is already facing cuts in a budget reconciliation bill. Now, more than ever, it is essential that a no-cost U.S. sugar policy be retained as a part of the new Farm Bill.

Background: Industry Size, Efficiency, Restructuring

The United States is the world's fifth largest sugar producer and fourth largest consumer and net importer. U.S. production is about evenly divided between sugarbeets, grown in twelve mostly northern-tier states, and sugarcane, in four southern states (*Figure 1*).

Two decades of declining real prices for our product have forced U.S. producers to reduce costs. We have done so through investment in yield-improving technology, in the field and in the factory – beet sugar yields per acre are up 35% and cane sugar yields 38% since the early 1980's (*Figure 2*) – and through a wrenching industry restructuring over the past several years.

Beet and cane growers throughout this nation are among the most efficient sugar producers in the world. We are particularly proud that we achieve this efficiency while complying with the world's highest labor and environmental standards and despite the strong dollar over the past several years, particularly relative to the developing countries that dominate the world sugar market.

In the late 1990's, even nominal sugar prices were extremely low *(Figures 3-6)*, and this accelerated the industry restructuring. Just since 1996, nearly a third of all U.S. beet and cane processing mills and cane sugar refineries have closed. Independent beet processors and cane sugar refining companies sought to exit the business. When no potential buyers emerged, beet and cane growers, alarmed they would have no place to deliver their sugarbeets and raw cane sugar, organized cooperatively to purchase beet processing plants and cane refineries.

Just between 1999 and 2004, the grower-owned share of U.S. sugar refining capacity more than doubled, from 36% to 73%. Growers' share of cane sugar refining capacity shot up from 14% to 57%; beet growers' ownership of beet processing capacity climbed from 65% to 94% *(Figure 7)*. While this enables the growers/processors to achieve greater efficiencies, the enormous amount of investment involved makes the growers more dependent than ever on maintaining a stable sugar market in the U.S.

Background on U.S. Sugar Policy

In the 2002 Farm Bill, the United States Congress, by resounding majorities in both chambers – 71% of the votes cast in the Senate and 57% in the House – passed a successful sugar policy. Recently, the House defeated an anti-sugar policy amendment by a vote of 280-146, or 66% of votes cast – the widest margin of any House sugar policy vote in decades.

U.S. sugar policy is unique among U.S. commodity programs. Under all commodity programs, the government offers farmers operating loans which they can satisfy by repaying the loan with interest or by forfeiting to the government the crop they put up as collateral. While other programs also provide income support to farmers when market prices fall below the loan rate, sugar policy does not, and is designed to run at no cost to the government by avoiding loan forfeitures.

Sugar policy is an inventory management program. The Secretary of Agriculture has two tools to manage the market: a WTO-legal tariff-rate quota (TRQ) to control imports, and a marketing allotment program to control domestic supplies.

The TRQ is a tool of limited use. The government cannot reduce imports below the minimum to which it has committed in trade agreements: 1.256 million short tons in the WTO and up to 276,000 short tons of surplus production from Mexico in the NAFTA. In addition, the newly passed CAFTA will add 169,000 short tons over 15 years.

Essentially by subtracting required imports from anticipated consumption, and allowing for reasonable stock levels, USDA calculates the amount of sugar that could be marketed each year without the risk of depressing prices and inviting loan forfeitures. Farmers can plant as much beets and cane as they want, and process as much sugar as they want, but they may not be able to sell it all onto the market. Sugar processors must store, at their own expense, whatever USDA judges to be in excess, until the market requires the sugar.

Trade Policy Concerns

American sugar producers are rueful about the reality that, while we are efficient and would like to become more so by increasing throughput and minimizing unit costs, U.S. trade policy constrains us from doing so. With consumption declining as it was in recent years and a large segment of the U.S. market reserved for imports, American producers are residual suppliers of their own market. To make matters worse, there is enormous political pressure to increase imports and no prospect of reducing them.

In addition to CAFTA, the Administration is at various stages of negotiating bilateral or regional FTAs with 21 other sugar-exporting countries. These countries produced an annual average of 50 million tons of sugar during 2002-2004. They exported 25 million tons per year – nearly triple U.S. sugar consumption. All these countries already enjoy duty-free shares of the U.S. sugar-import quota.

Recently, Administration negotiators met in Montana with their counterparts from Thailand, the world's second largest sugar exporter, and the Thai negotiations are continuing this week in Hawaii. The Thais said they want additional access to the U.S. market; U.S. negotiators said sugar is on the table. And this is apparently the case with all the FTAs lined up behind CAFTA and Thailand.

The Congress, and the American sugar industry, do not believe the U.S. sugar market should be carved up for subsidized foreign sugar producers, particularly without addressing the subsidies in those countries.

Sugar is the most distorted commodity market in the world. The government in every country that produces sugar intervenes in its sugar market in some way. The biggest producers, and subsidizers, dump their surplus on the world market for whatever price it will bring. As a result of this pervasive dumping, so-called world market prices for sugar have averaged barely half the world average cost of production over the past two decades *(Figure 8)*.

No producer could survive at prices so low. But government intervention ensures that domestic wholesale prices, at which most sugar is sold, are well above world dump market levels. Globally, domestic clearing prices for sugar average 22 cents per pound -- about double the world dump market price and virtually the same as the U.S. refined beet sugar support price of 22.90 cents per pound *(Figures 9, 10)*.

The sugar subsidy problem is a global problem. It must be addressed globally in the WTO – comprehensive, multilateral, sector-specific negotiations – all countries, all programs. The industry has supported the WTO approach since the onset of the Uruguay Round in 1986.

Piecemeal market access concessions in bilateral and regional free trade agreements will *not* help solve the global sugar subsidy problem. Such concessions could, however, put the U.S. sugar industry out of business while foreign subsidies continue unchecked.

There is ample precedent for sugar-free FTAs. Sugar market access mandates have been excluded from virtually every FTA concluded around the world that has involved major sugar producers or consumers. The U.S.-Australia FTA is the most recent example. There are many others: the U.S.-Canada FTA; the EU's FTAs with South Africa and with Mexico; the Mercosur agreement among major producers Brazil, Argentina, Paraguay, and Uruguay; Mexico's FTAs with other Latin American countries.

U.S. Sugar Policy: Success for Taxpayers

American sugar farmers are proud of the fact that sugar is the only major U.S. commodity program run at no cost to taxpayers. We derive all our returns from the marketplace. We receive no income supports from the government to cushion the blow when market prices drop. We have not had an increase in our support price in 20 years, though inflation since 1985 has been 90%.

In many years U.S. sugar policy has been a revenue raiser. During the 16-year period of fiscal years 1991 to 2006, government outlays for all other commodity programs are estimated to be $236 billion. In contrast, sugar net *revenues* – sugar producers' payments to the U.S. Treasury – are estimated to be $110 million (*Figure 11*).

U.S. Sugar Policy: Success for Consumers

American consumers get a great deal on sugar. Consumer prices are low and affordable by world standards, and extremely stable. Foreign developed-country consumers, on average, pay 30% more for their sugar than American consumers do. And, remarkably, U.S. retail sugar prices are essentially unchanged since the early 1990's. In terms of minutes of work to purchase a pound, sugar in the U.S. is about the most affordable in the world (*Figures 12, 13*).

American consumers' savings on sugar could be even greater, but history has shown that consumers do *not* benefit when producer prices for sugar fall: Grocers and food manufacturers routinely absorb their savings as higher profits rather than passing the lower sugar prices along to consumers.

- Grocers have increased profits at the expense of sugar producers and consumers as the gap between wholesale and retail prices has more than doubled over the past two decades (*Figure14*).

- Food manufacturers have enjoyed retail price increases for sweetened products at least in line with inflation, while paying producers lower prices for the sugar the manufacturers buy (*Figures 15, 16*).

Conclusion

U.S. sugar policy is working for American taxpayers and consumers. It is giving American sugar growers a chance to survive in a highly subsidized and distorted world market.

The greatest threat to continued no-cost operation of this successful policy is the hoard of FTAs with sugar-exporting countries that could carve up our market to subsidized foreign producers, without addressing any of the foreign subsidies that so badly distort the world market. These foreign distortions must be addressed, but that can only occur in the multilateral context of the WTO.

We urge that the highly successful no-cost U.S. sugar policy be retained in the next Farm Bill.

Figure 1

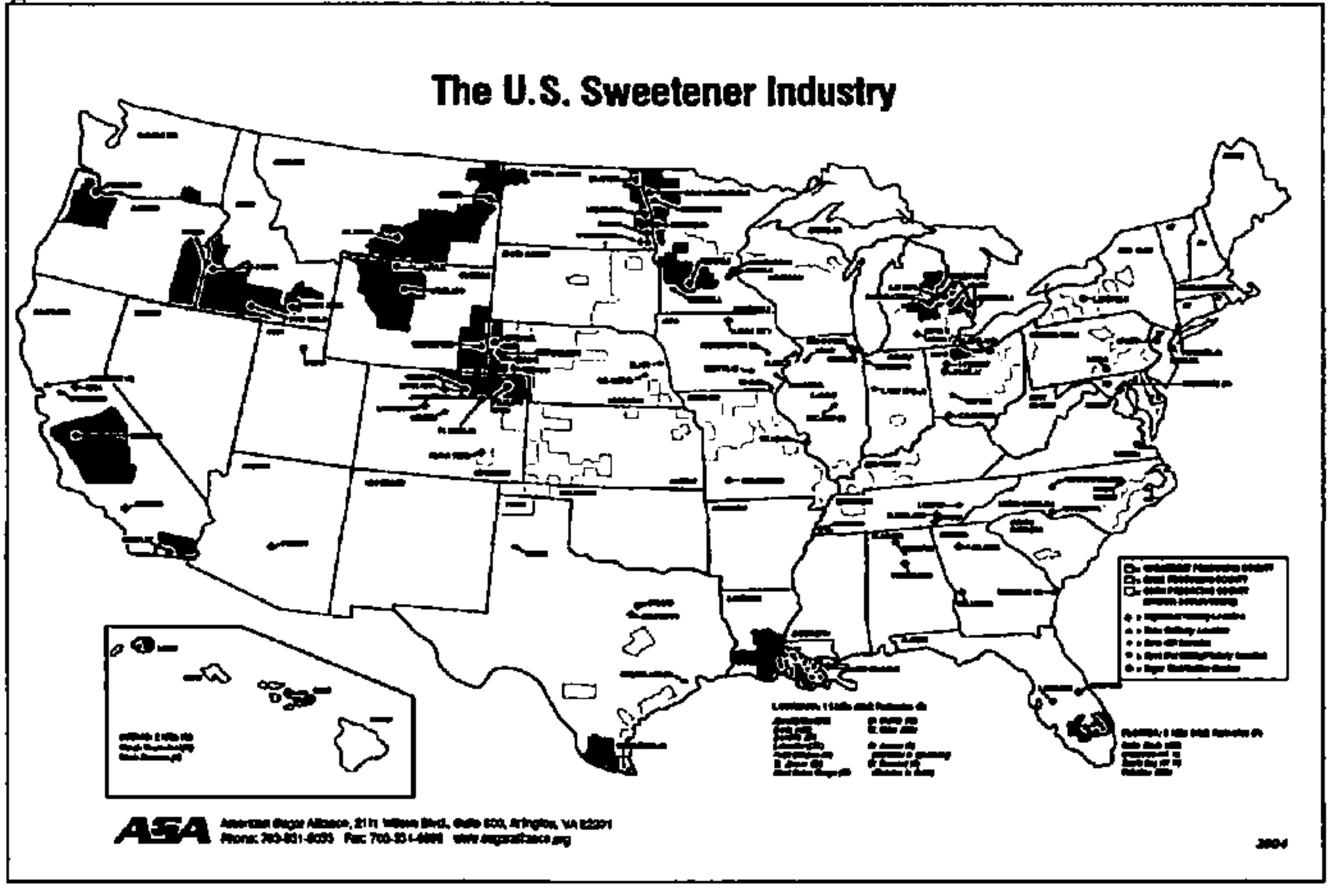
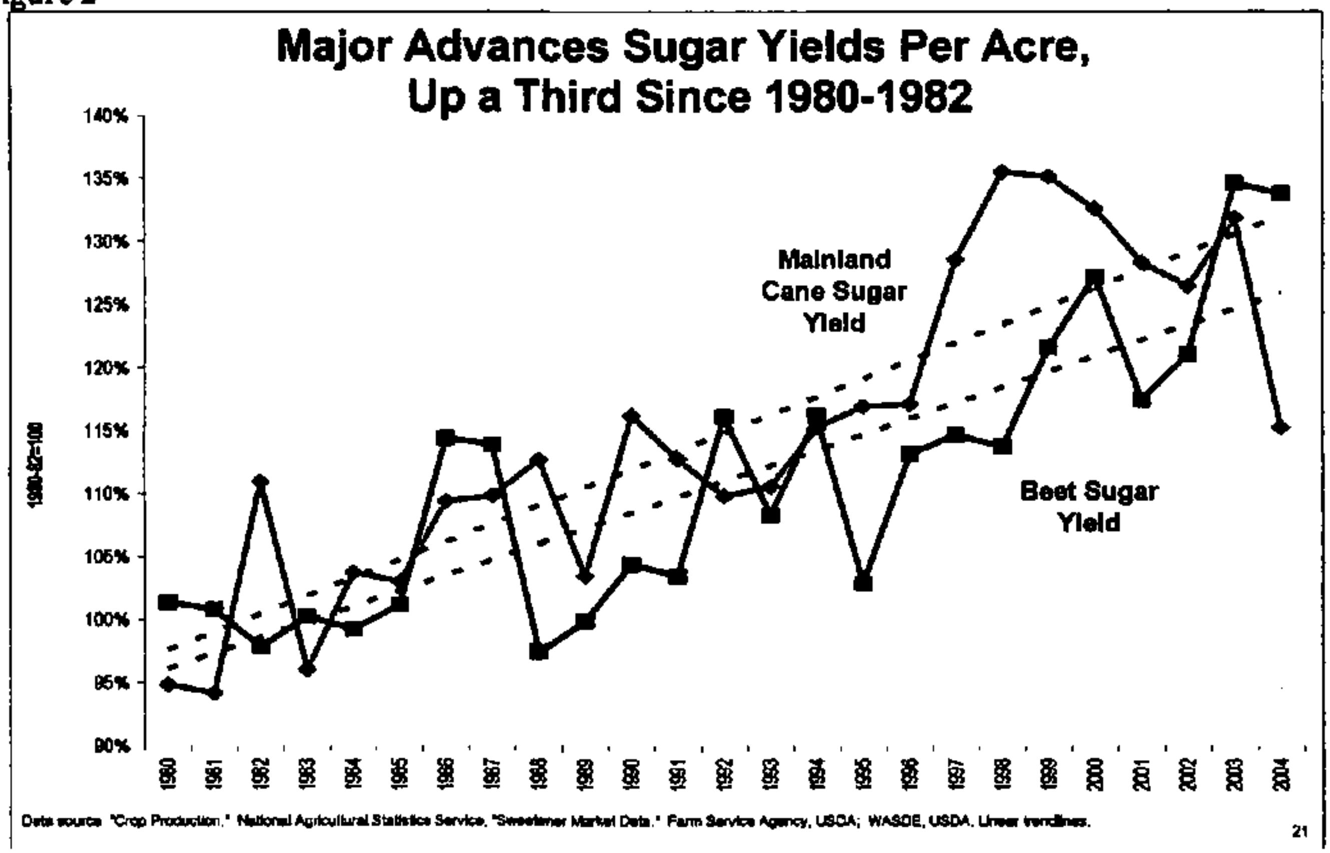
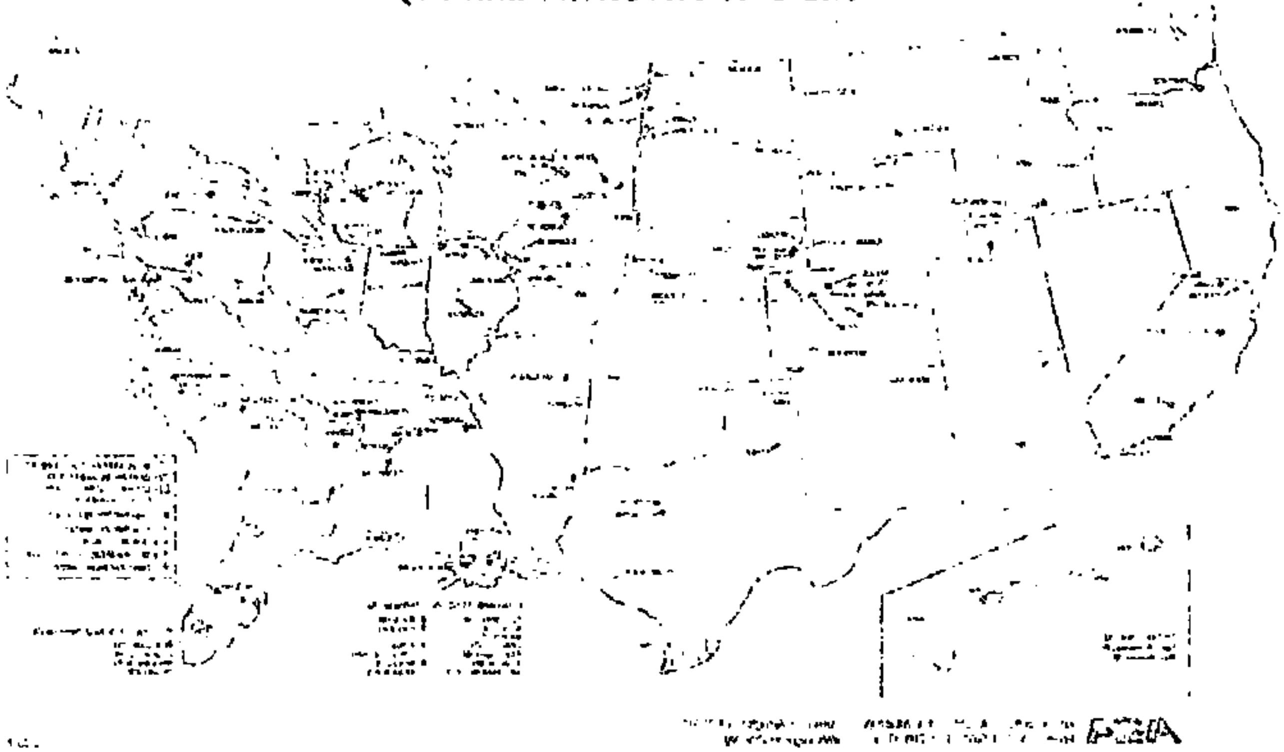


Figure 2



The U.S. Sweetener Industry



Major Advances Sugar Yields Per Acre, Up a Third Since 1980-1992

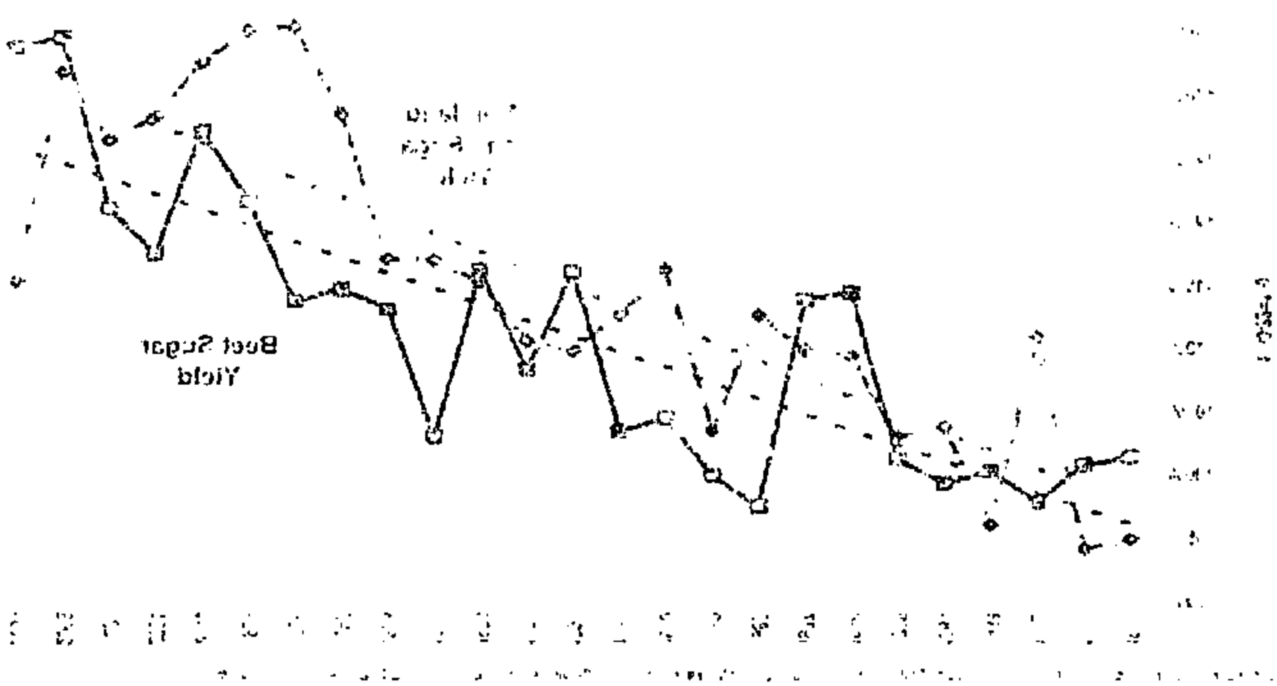


Figure 3

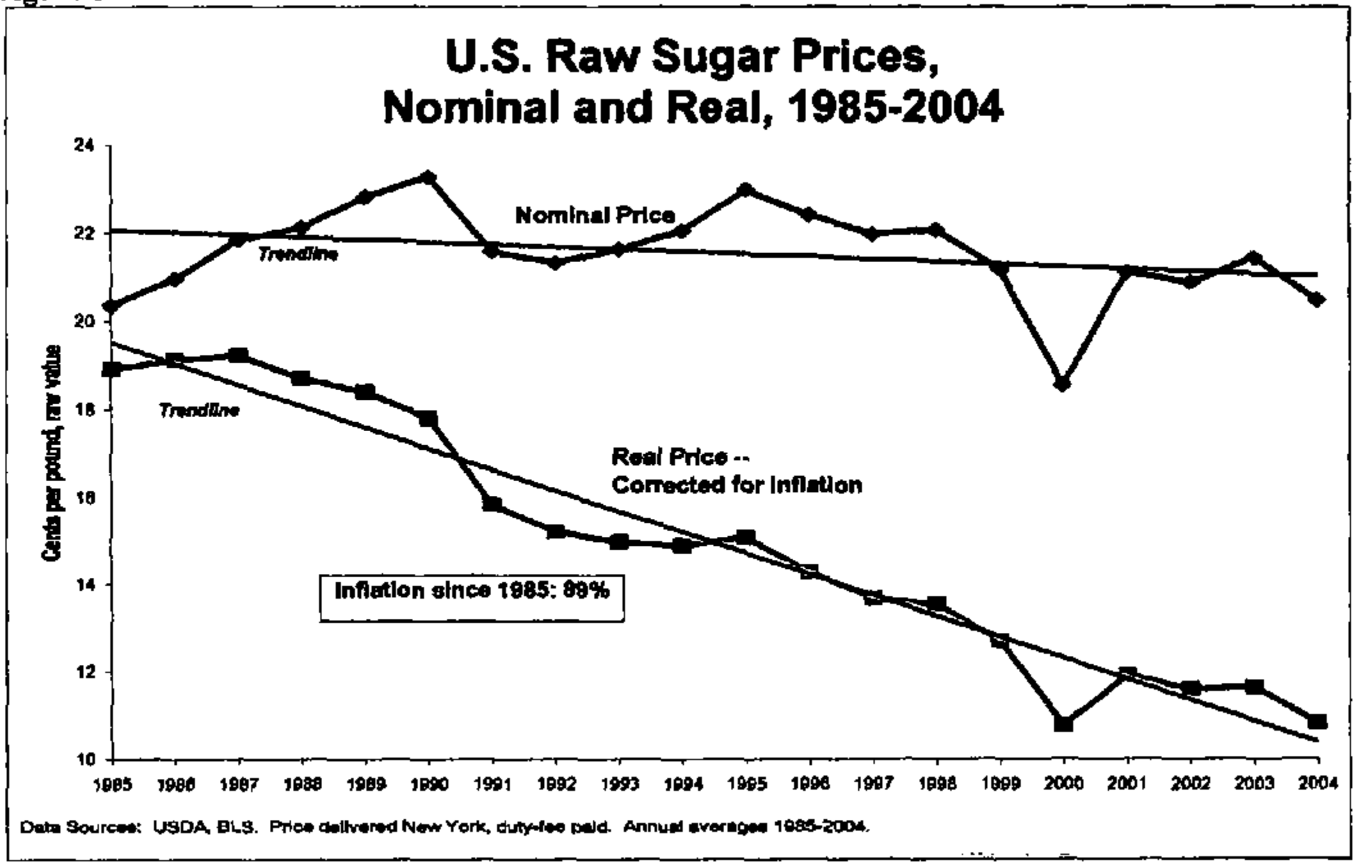
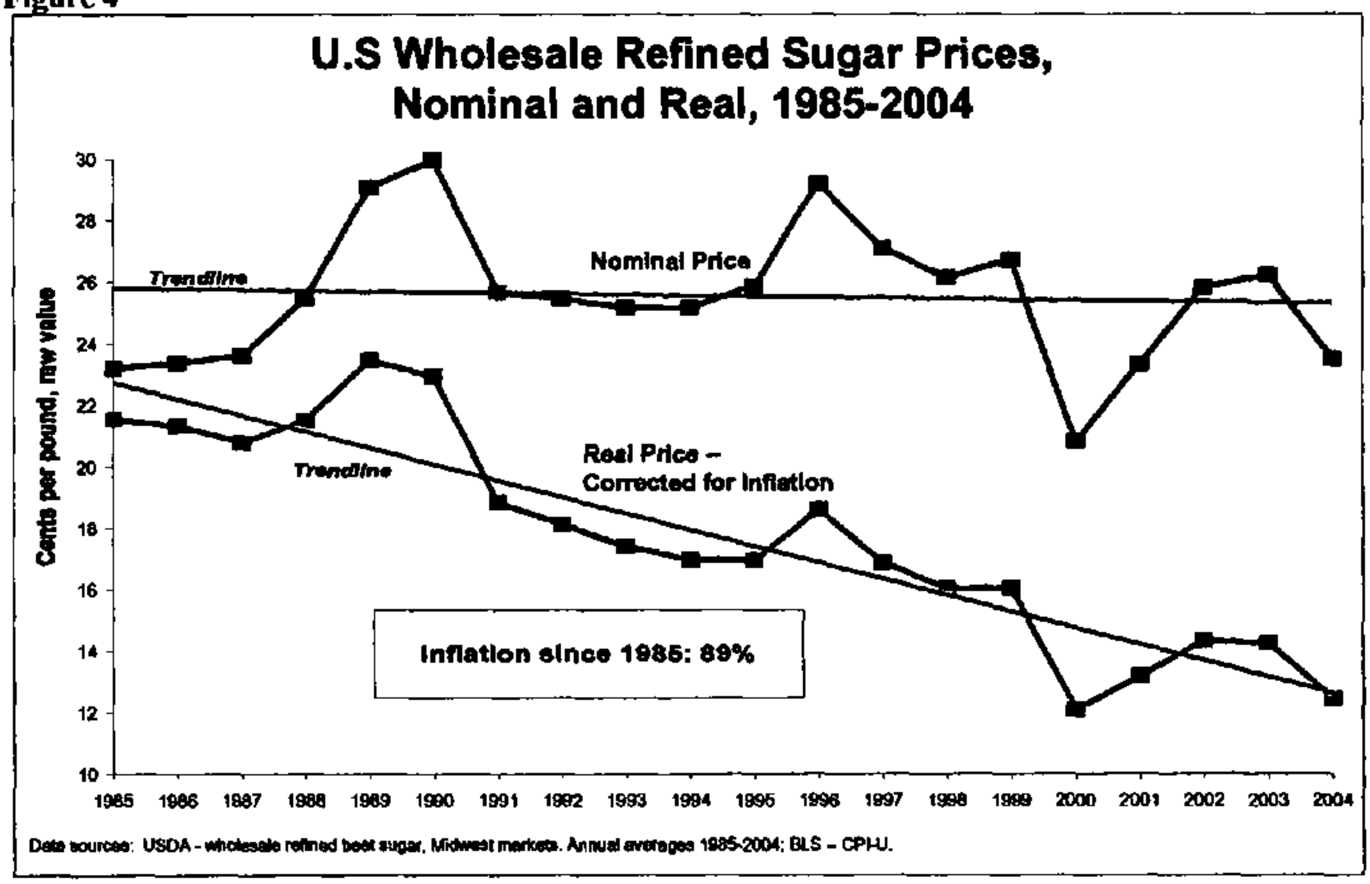
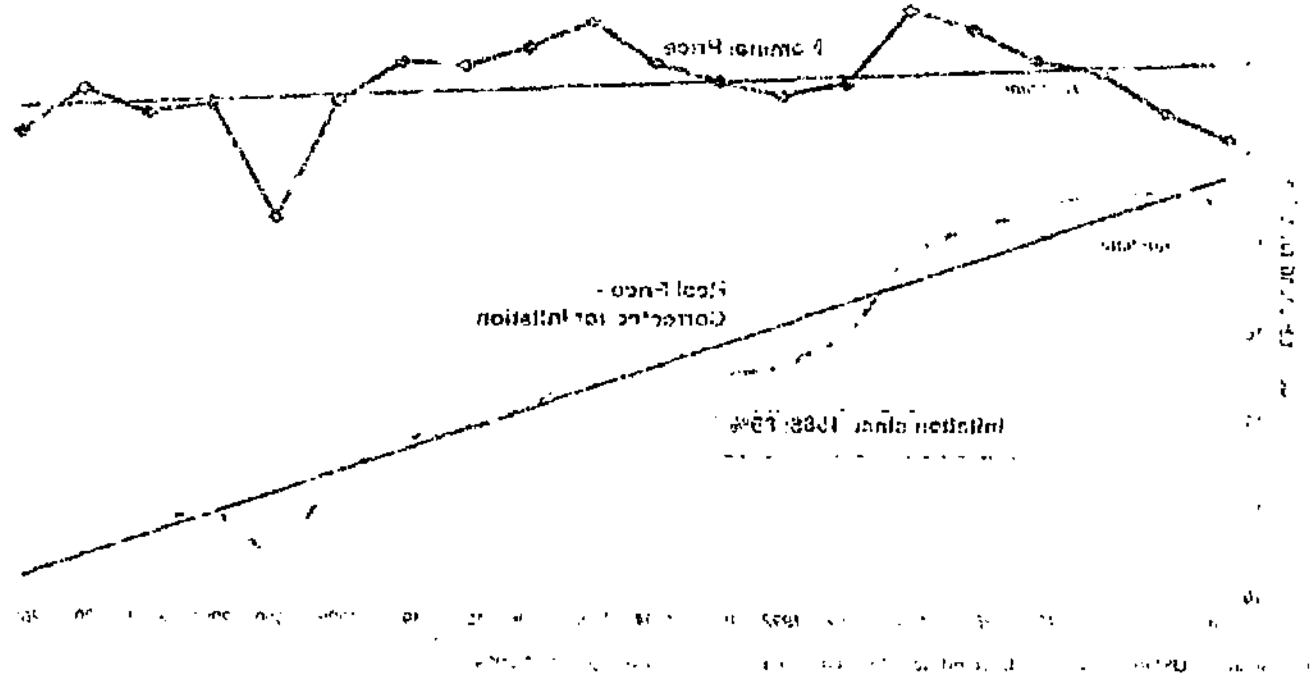


Figure 4



U.S. Raw Sugar Prices, Nominal and Real, 1985-2004



U.S Wholesale Refined Sugar Prices, Nominal and Real, 1985-2004

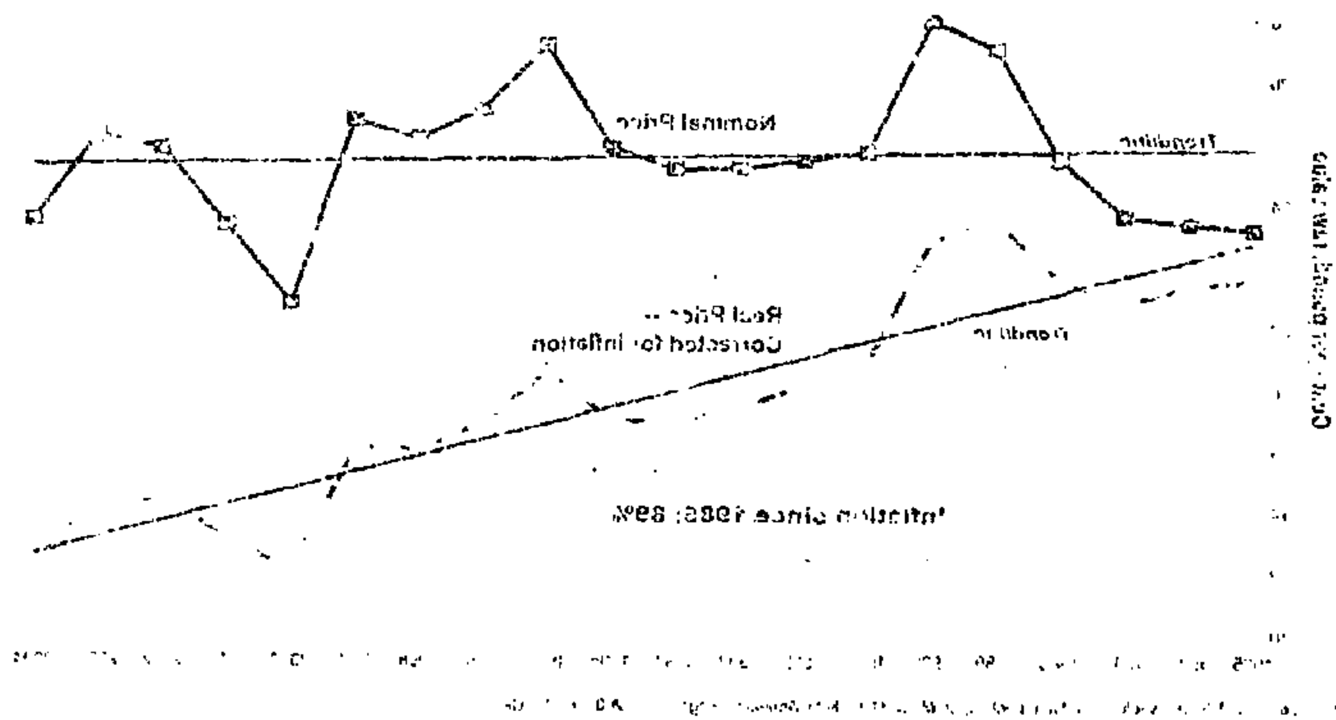


Figure 5

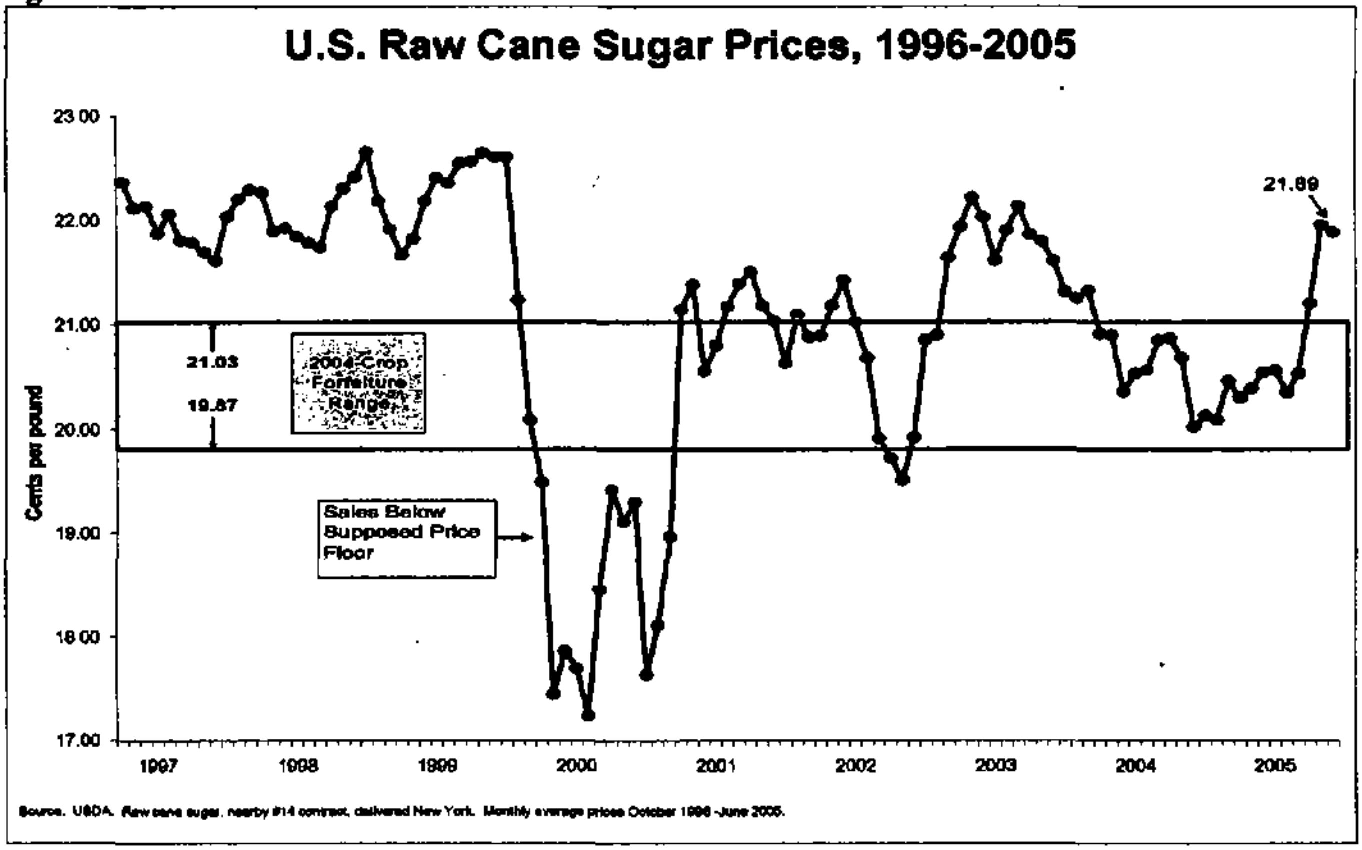
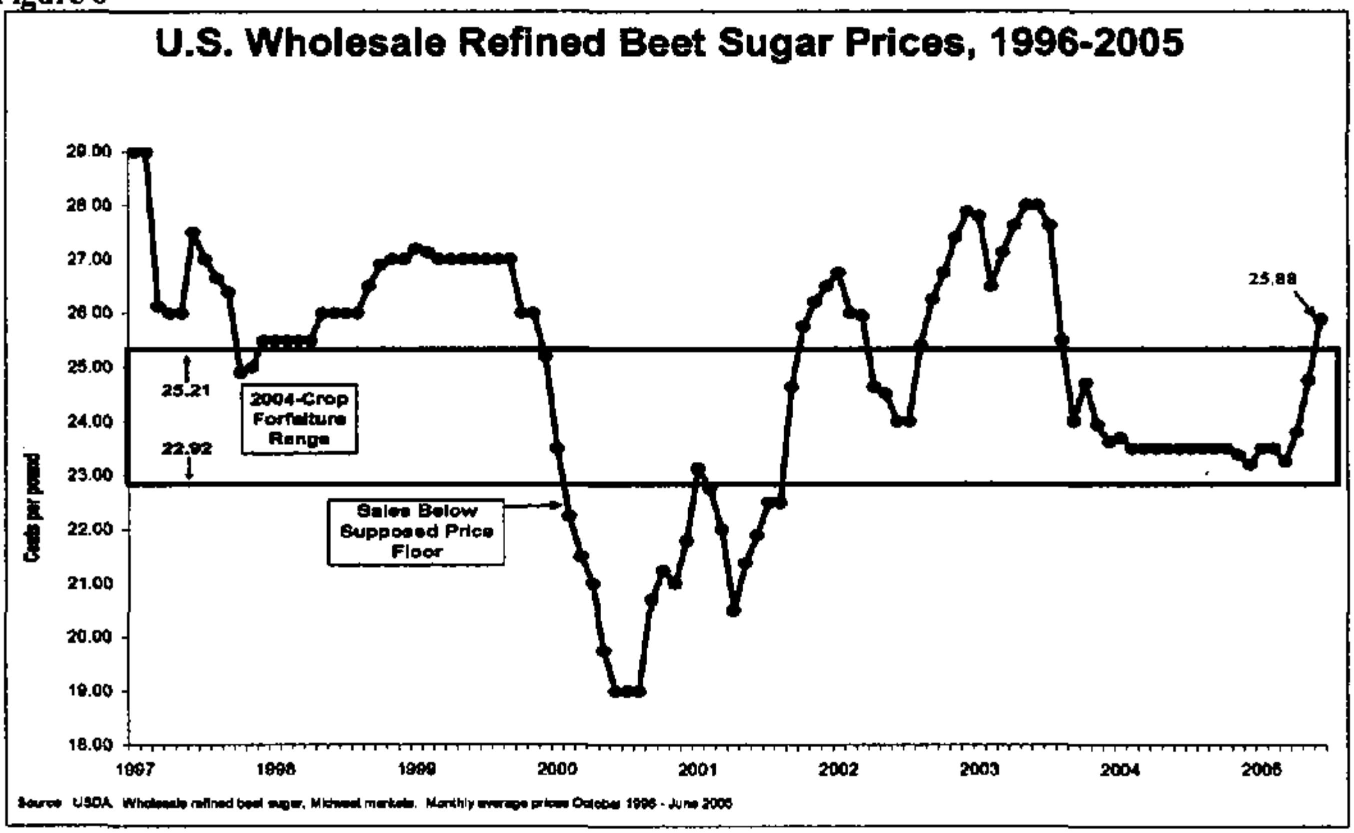
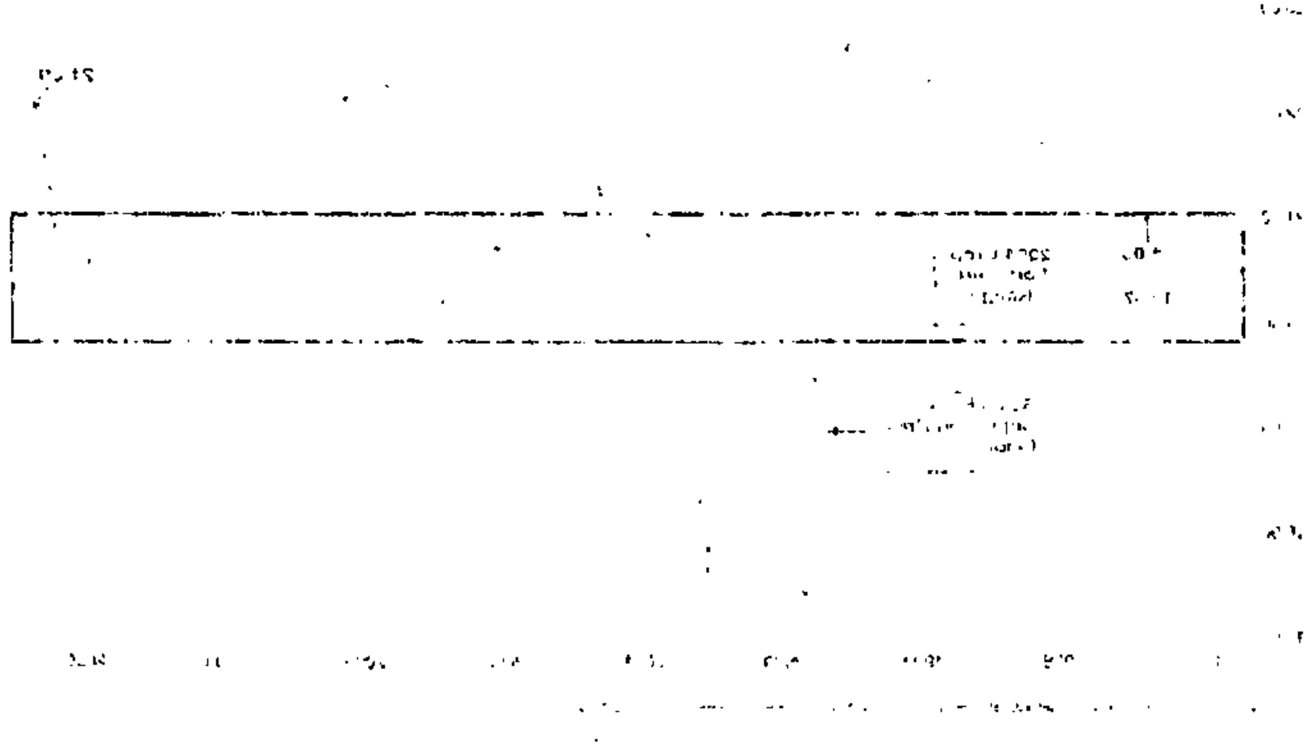


Figure 6



U.S. Raw Cane Sugar Prices, 1996-2005



U.S. Wholesale Refined Beet Sugar Prices, 1995-2005

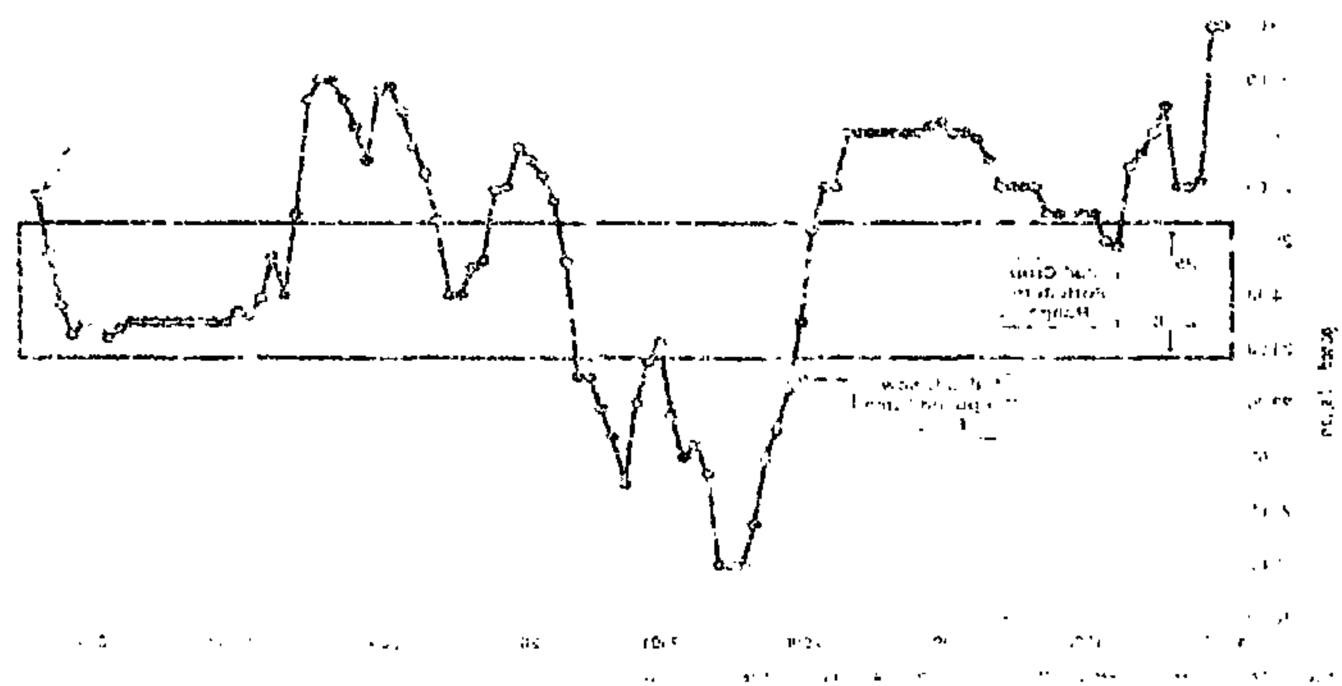


Figure 7

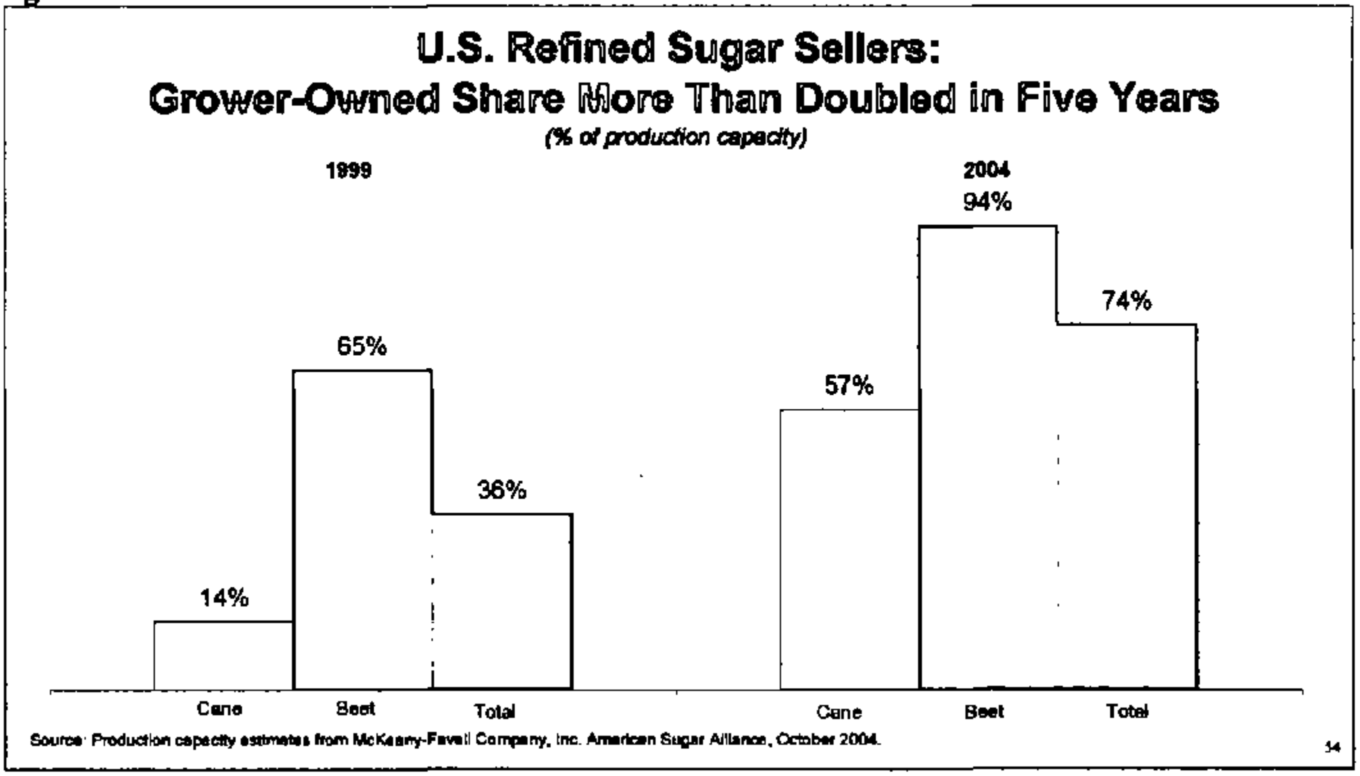
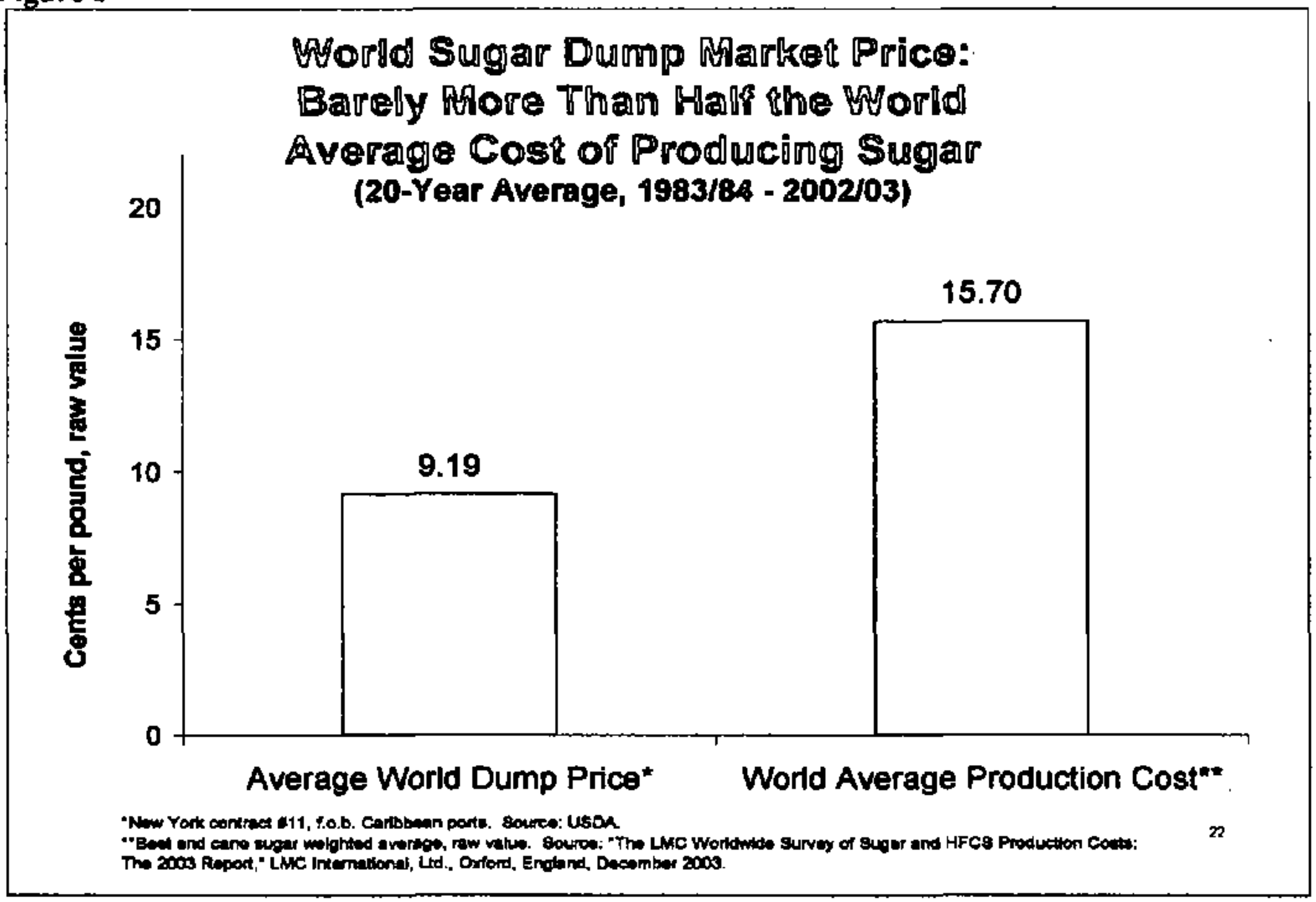
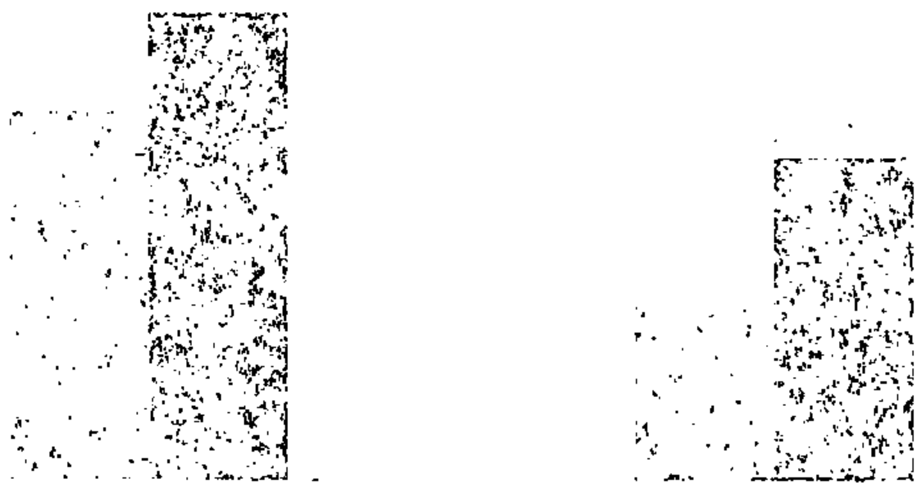


Figure 8



U.S. Refined Sugar Sellers: Grower-Owned Share More Than Doubled in Five Years

(% of production capacity)



World Sugar Dump Market Price: Barely More Than Half the World Average Cost of Producing Sugar

(20-Year Average, 1983/84 - 2002/03)

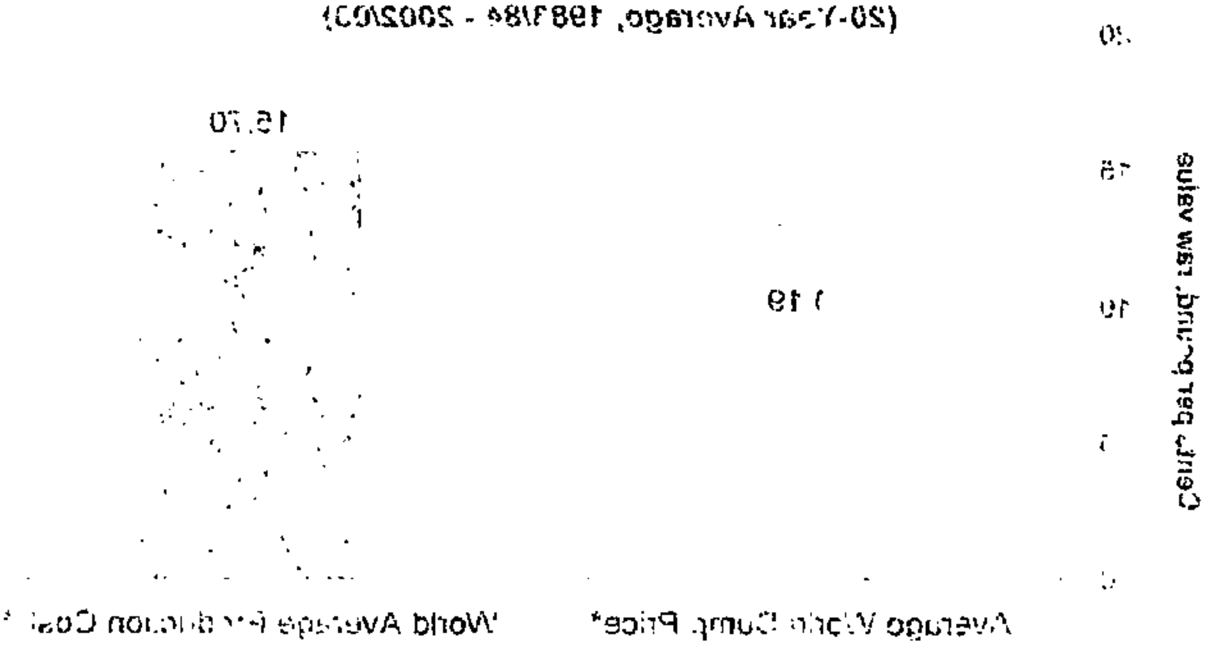
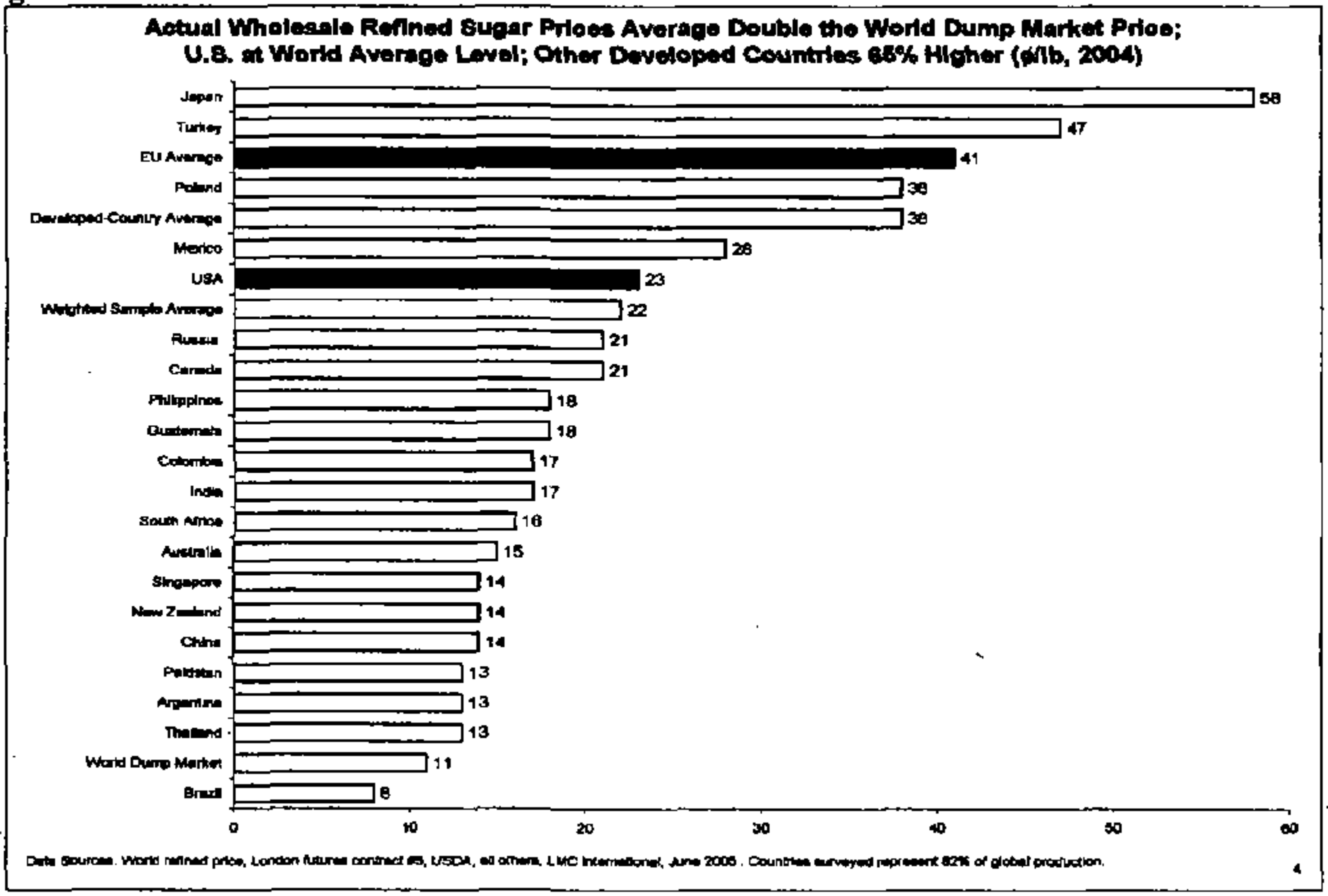
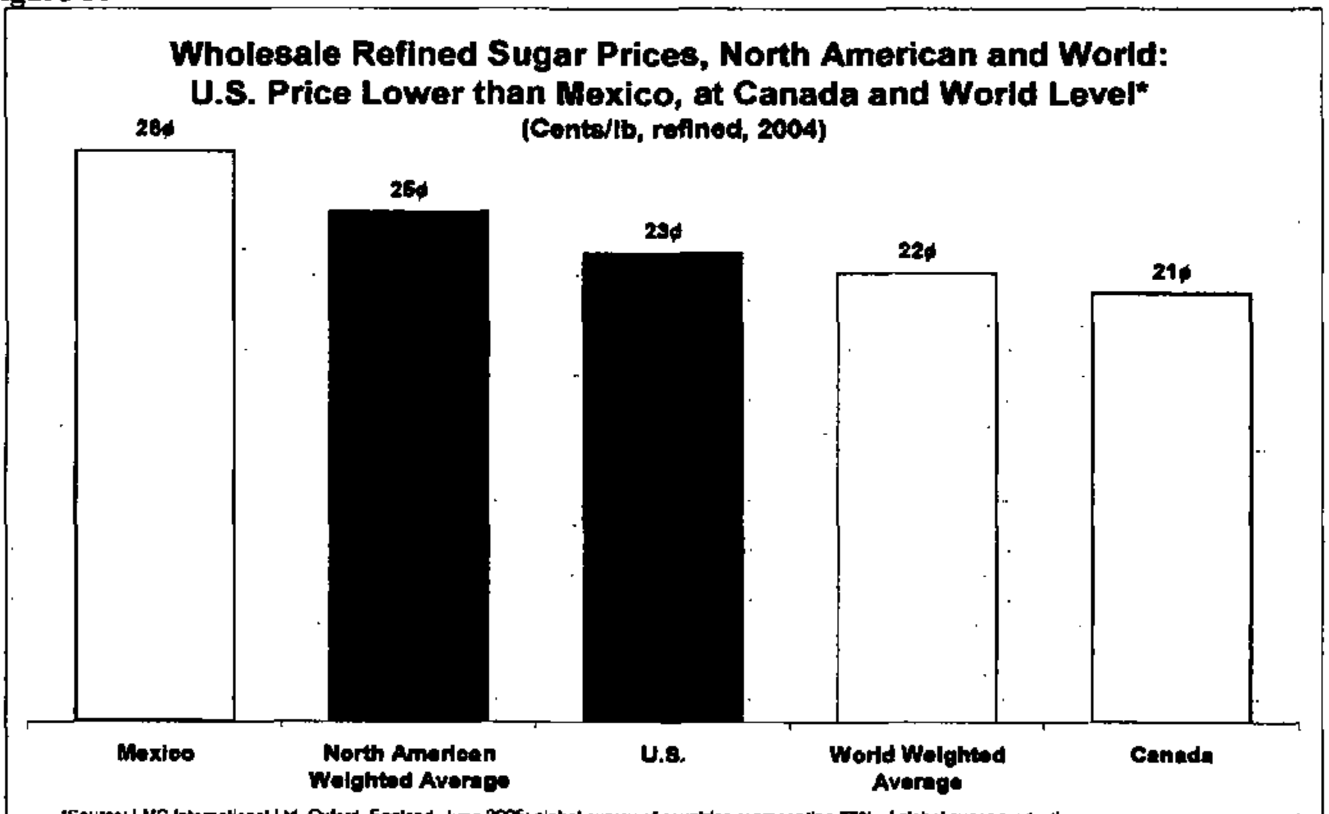


Figure 9



Data Sources: World refined price, London futures contract #5, USDA, all others, LMC International, June 2005. Countries surveyed represent 82% of global production.

Figure 10



*Source: LMC International Ltd, Oxford, England, June 2005: global survey of countries representing 77% of global sugar production.

Actual Wholesale Refined Sugar Prices Average Double the World Dump Market Price;
U.S. at World Average Level; Other Developed Countries 65% Higher (c/lb, 2004)

Wholesale Refined Sugar Prices, North American and World: U.S. Price Lower than Mexico, at Canada and World Level*

(Cents/lb, refined, 2004)

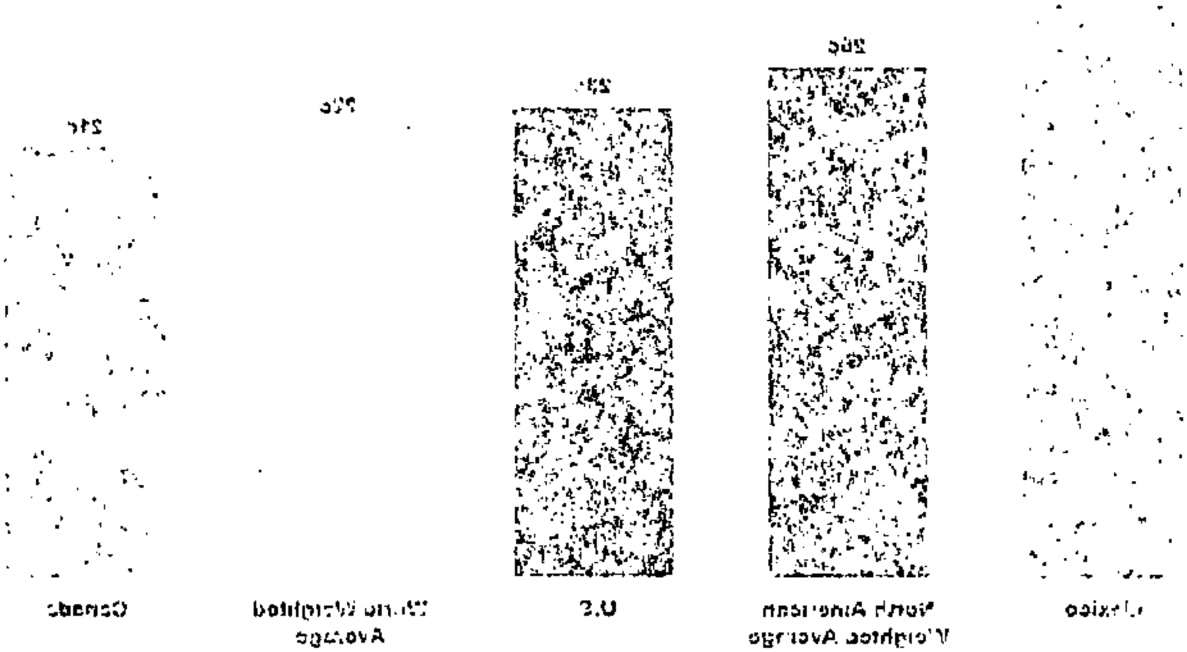


Figure 11

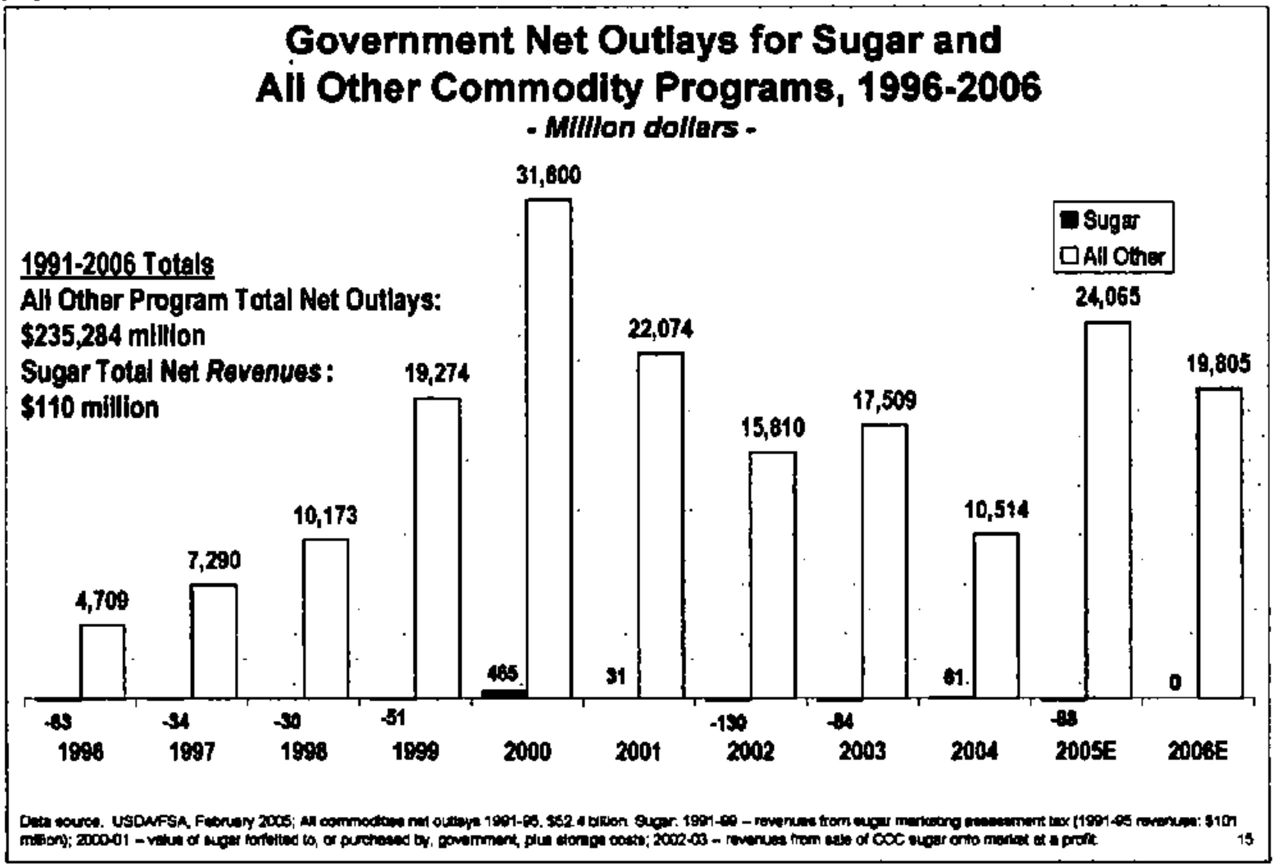
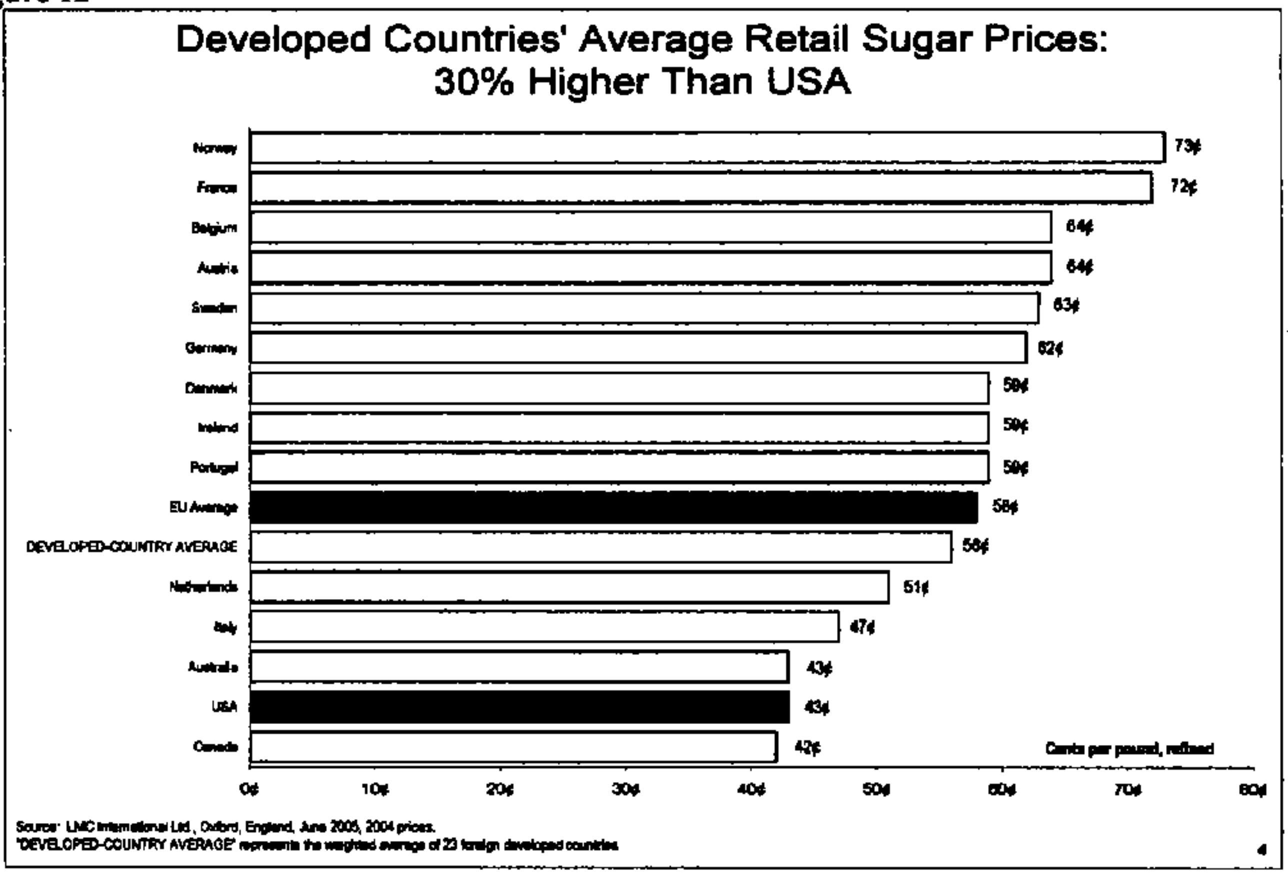
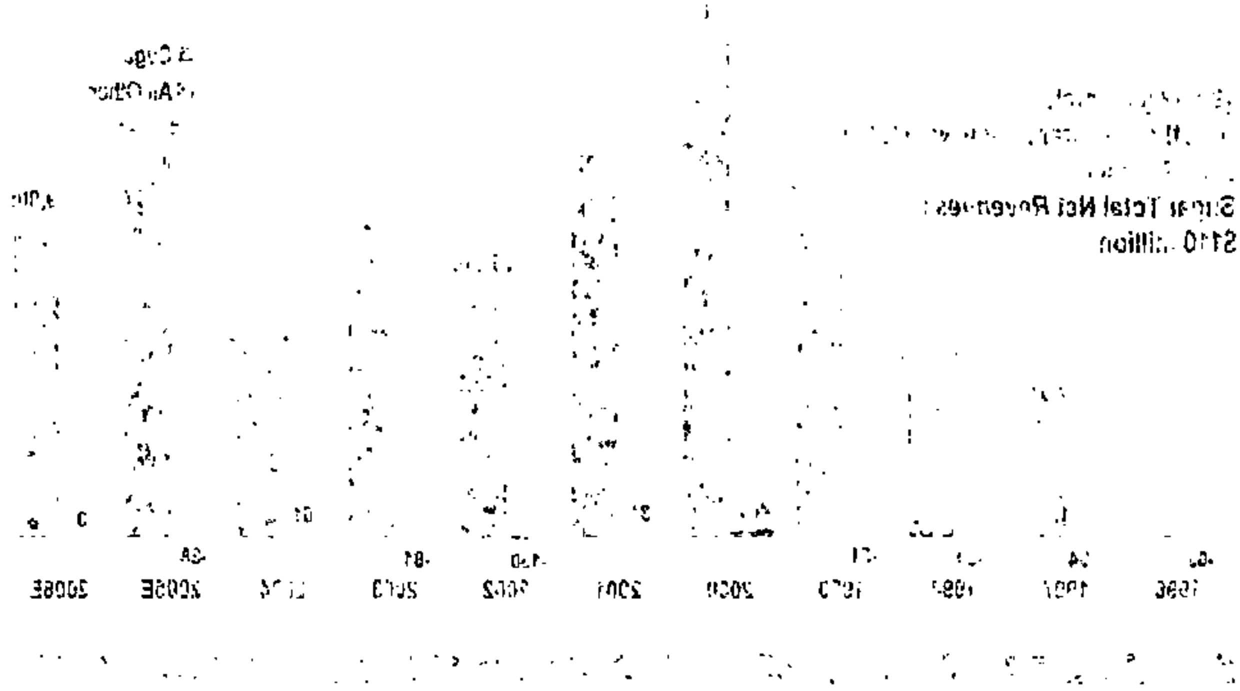


Figure 12



Government Net Outlays for Sugar and All Other Commodity Programs, 1995-2006

- Million dollars -



Developed Countries' Average Retail Sugar Prices: 30% Higher Than USA

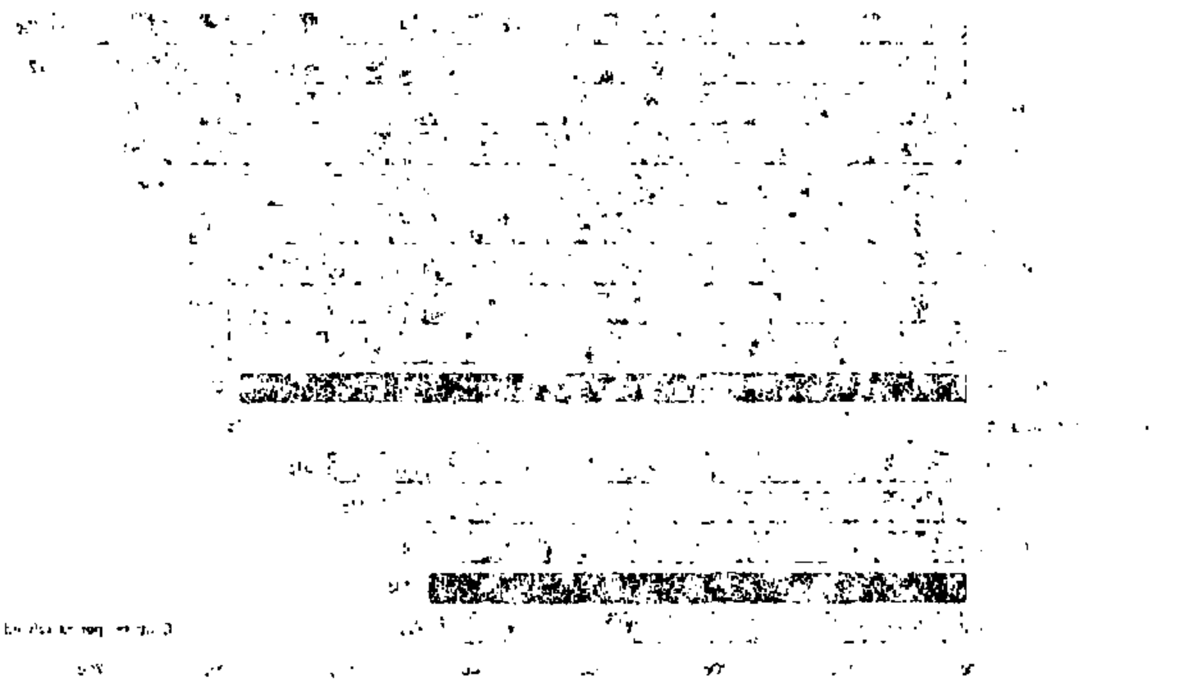


Figure 13

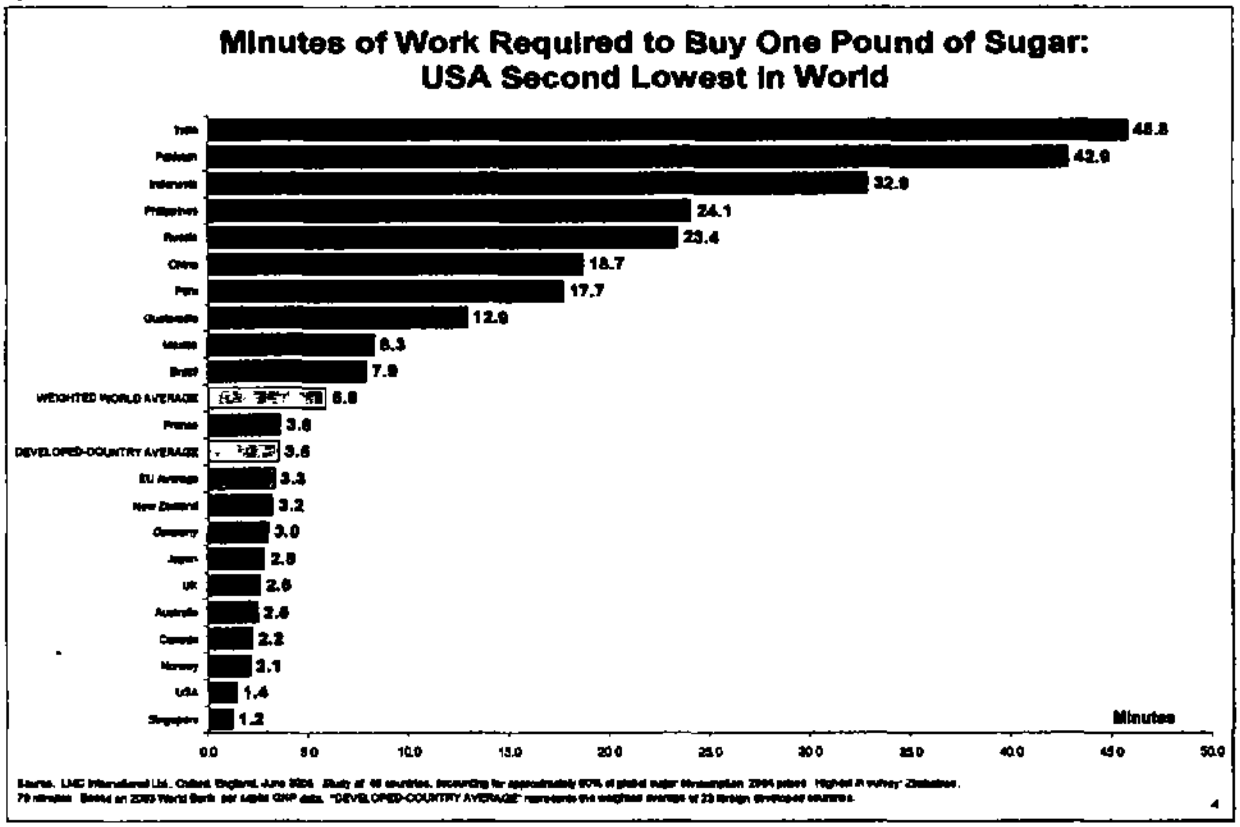
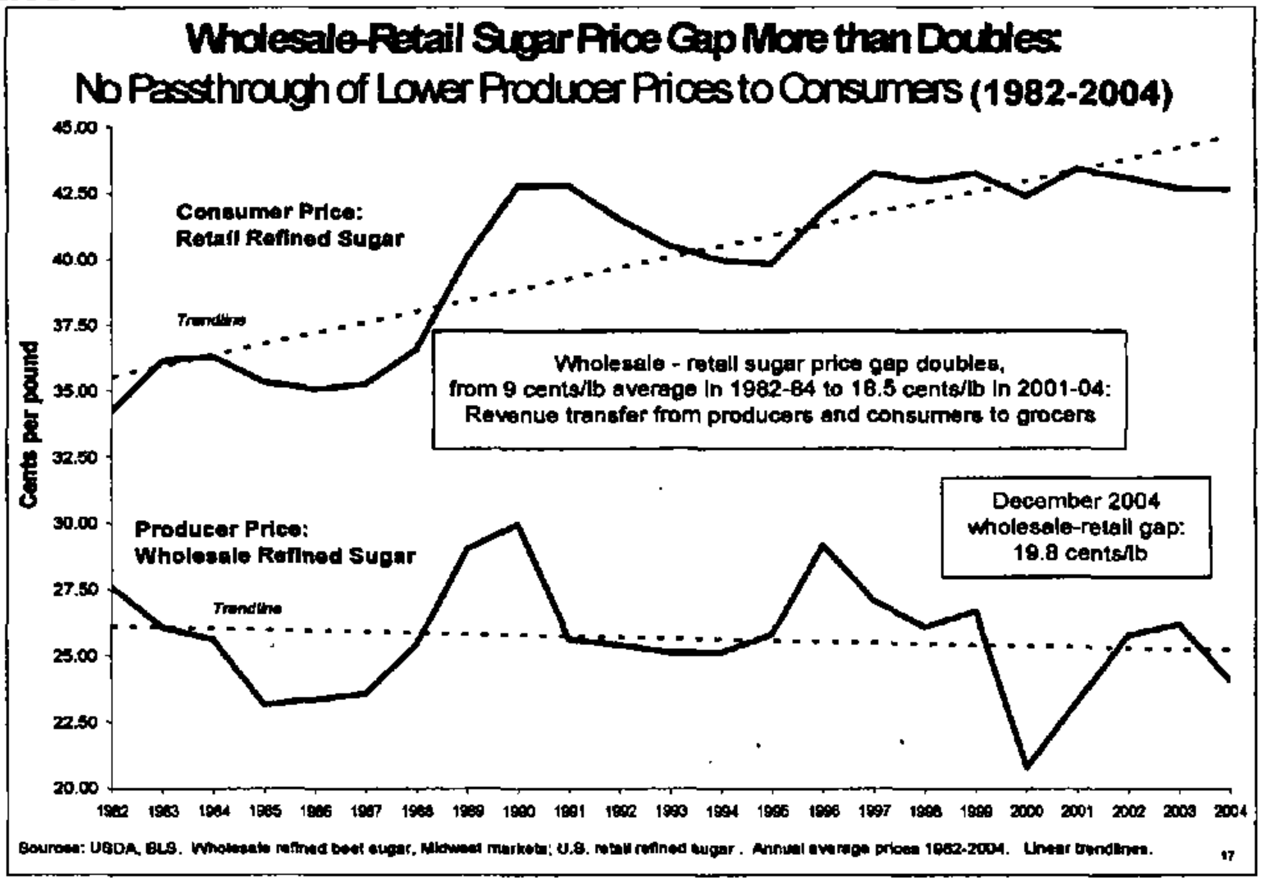
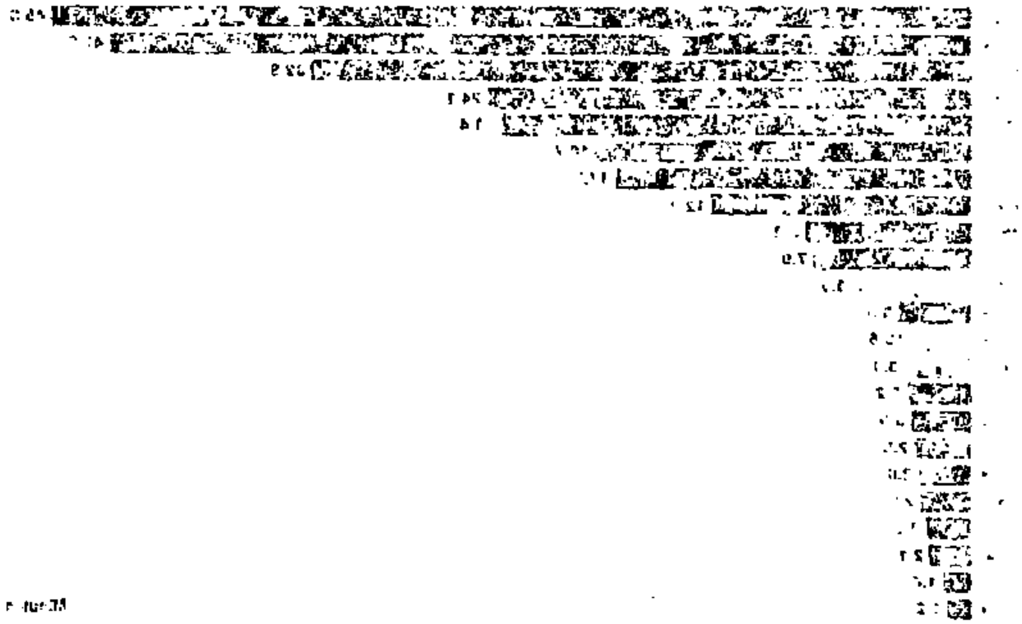


Figure 14



Minutes of Work Required to Buy One Pound of Sugar

USA Second Lowest in World



Wholesale-Retail Sugar Price Gap More than Doubles:

No Passthrough of Lower Producer Prices to Consumers (1982-2004)

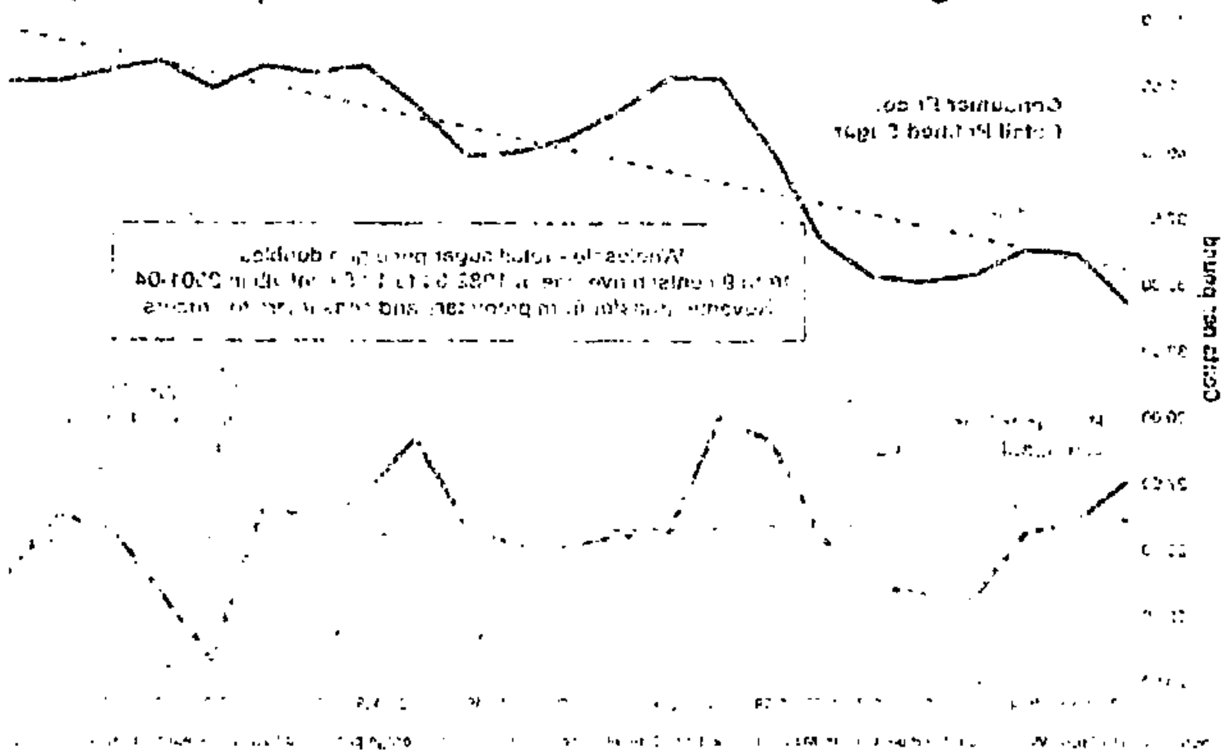


Figure 15

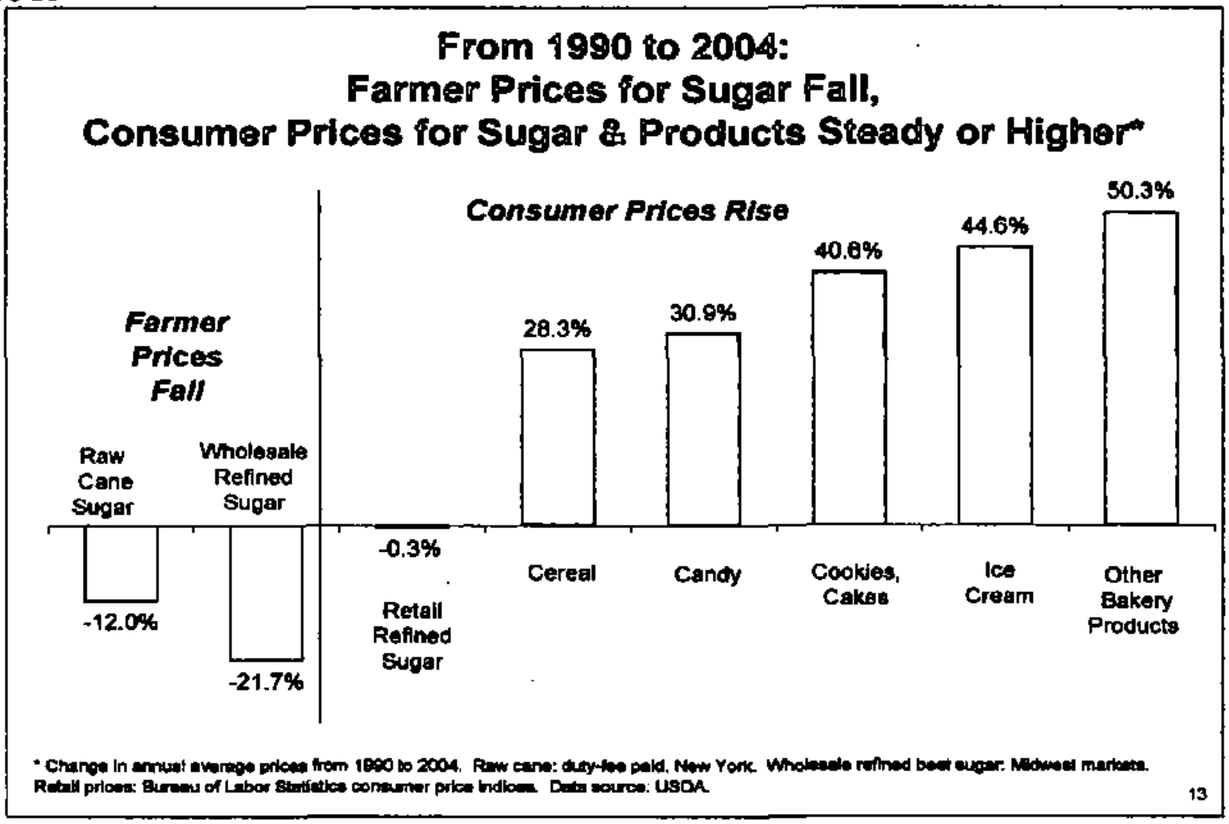
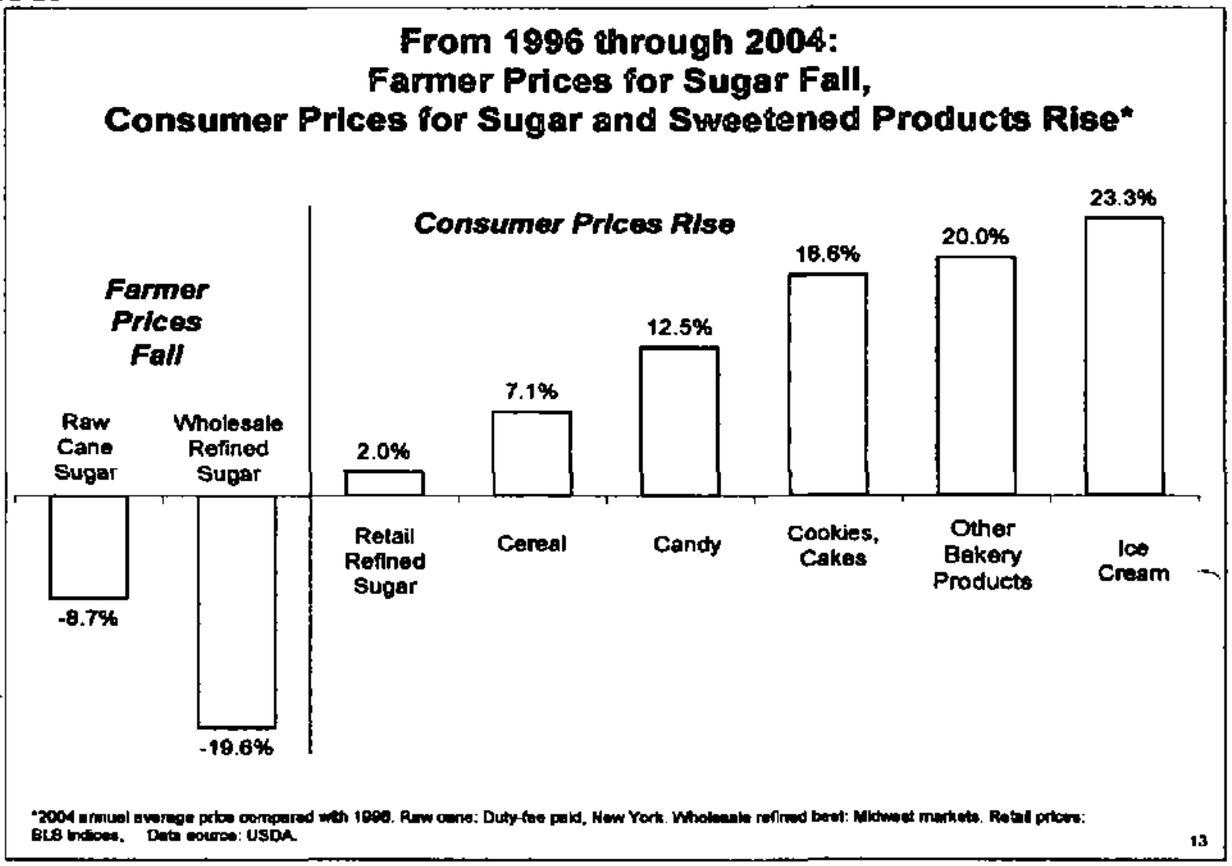
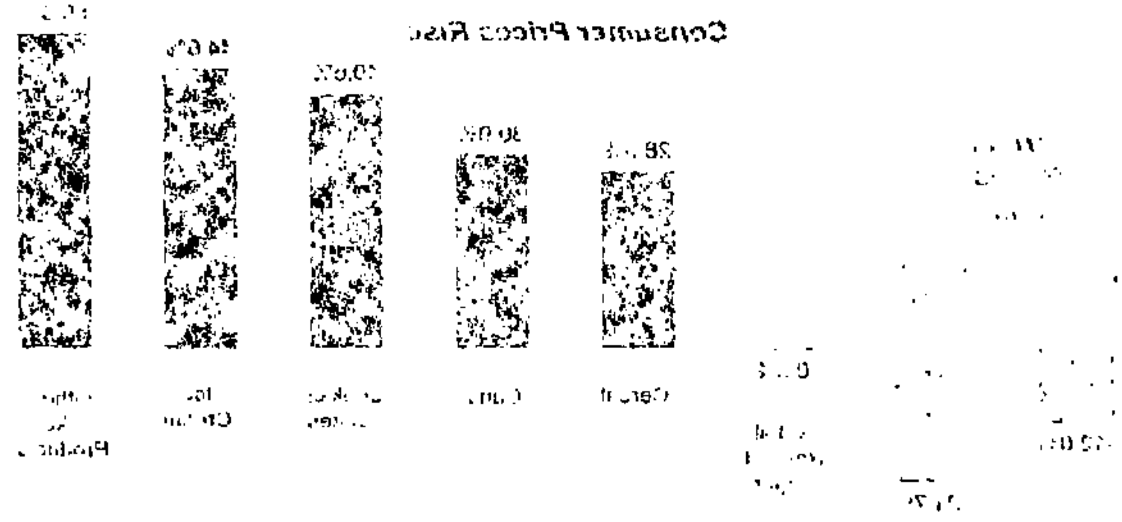


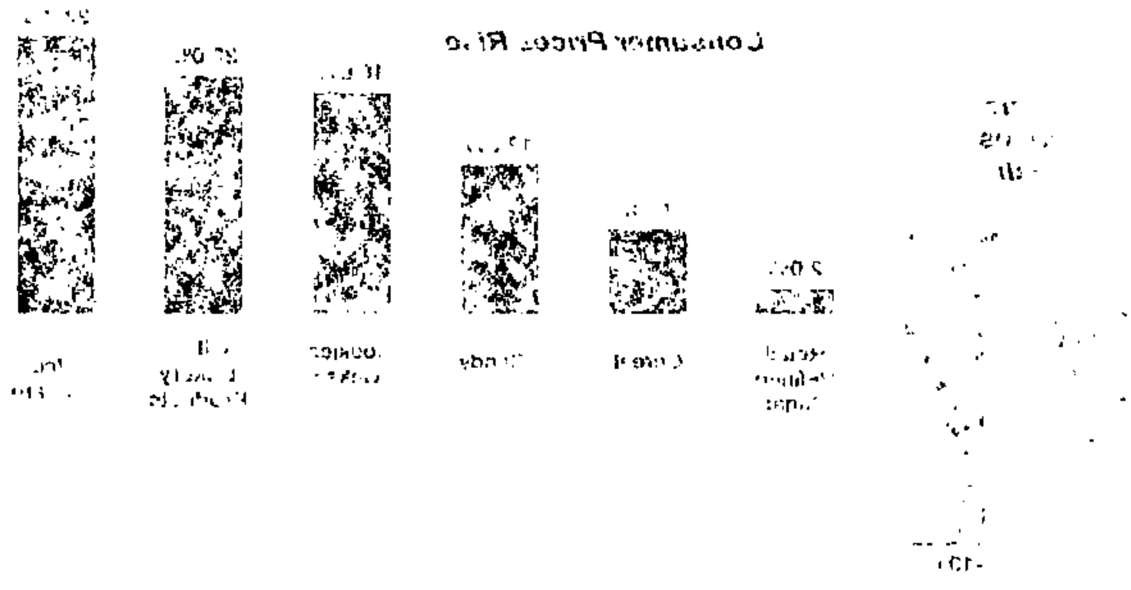
Figure 16



From 1990 to 2004:
Farmer Prices for Sugar Fall,
Consumer Prices for Sugar & Products Steady or Higher*



From 1996 through 2004:
Farmer Prices for Sugar Fall,
Consumer Prices for Sugar and Sweetened Products Rise*



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